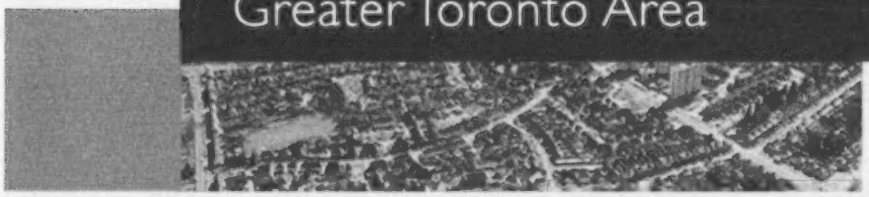
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Greater Toronto Area



Canada Mortgage and Housing Corporation

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New Home Market

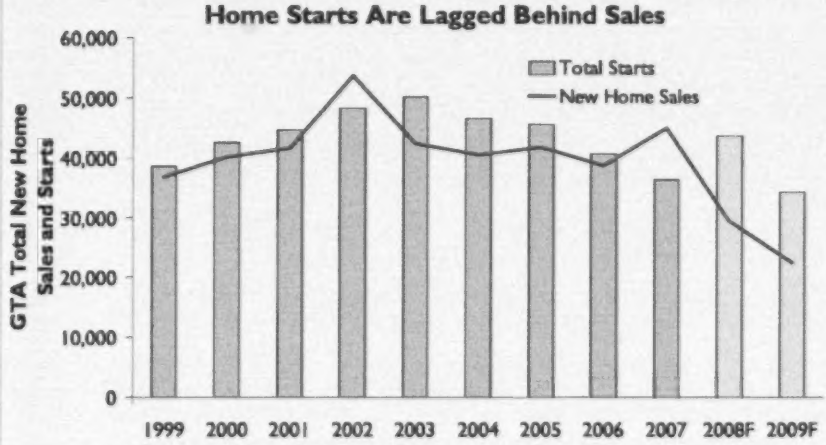
High Rise Sales Will Dominate New Home Market

New home sales in the Greater Toronto Area (GTA) will continue to moderate in 2009. Total new home sales will reach 22,500 in 2009 – down by 24 per cent compared to forecast sales in 2008. High rise sales have accounted for more than 50 per cent of the total share of sales since the end of 2007. This trend will continue and the share of high-rise sales will increase in 2009.

New home sales will trend lower as choice increases in the resale market. Softer local economic conditions and elevated home prices will push the demand for home ownership lower.

Figure 1

Home Starts Are Lagged Behind Sales



Source: RealNet Canada Inc. (www.realnet.ca), CMHC

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Consequently, existing home sales will drop off as a share of listings. This means that an increasing share of home buyers will meet their housing needs through the purchase of an existing home. Reduced pre-construction sales centre traffic will be the result.

The low-rise housing sector will experience moderating sales much more so than the high-rise sector. The average price of a new condominium apartment is much lower than the average prices for most low-rise home types. This will be one issue prompting an increasing share of new home buyers to purchase a condominium apartment.

Changing demographics in the GTA also explain the heightened interest in the high rise market. The average household size is shrinking with an increase in lone-parent and childless family households. These categories of homebuyers tend to live in smaller housing types like condominium apartments.

The luxury high-rise market is also a growing niche that is catering to an increasing number of ageing baby boomers and empty nesters. Many of these more aged households will be wealthy from home equity growth and other sources. Many baby boomers will be looking for a large and often luxurious home without the outdoor maintenance that is often required in a low-rise setting.

Strong immigration into the GTA has also played a role in increased demand for condominium apartments. This housing type has been an entry point into homeownership for many newcomers because of the lower average price point, which favours first-time buyers. Immigration will continue to be the dominant source of population growth in the GTA moving forward.

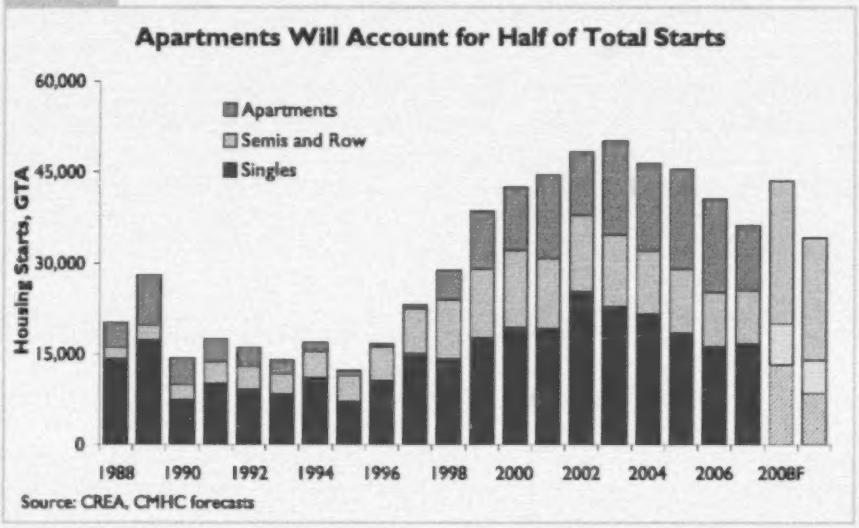
Starts to Edge Down

Lower new home sales over the past year and forecast for 2009 will translate into fewer new home starts. Following a healthy increase for 2008, total housing starts will edge lower by 21 per cent to 34,250 in 2009. Similar to the new home sales outlook, low-rise home starts will decline at a greater rate than apartment starts. In this way, the share of apartment starts will continue to trend higher, with 59 per cent of total new home construction being accounted for by high-rise units. The great majority of these apartments (approximately 95 per cent) will be condominiums for homeownership.

During the last two years, pre-construction sales of condominium apartments have hit record levels resulting in a back-log of units yet to start construction. While some of this back-log has unwound this year, units sold at the pre-construction stage up to two years ago will continue to start in 2009. Add to this the fact that 2008 pre-construction sales have been high historically, it makes sense that the share of apartment construction will continue to increase.

In order to see condominium apartment developments move from the pre-construction to construction stage, developers must be able to source labour, materials and equipment to allow construction to commence and continue without interruption. In many cases, because of the high number of apartments currently under construction, some developments must reach the completion stage before work can begin on new projects. Condominium apartment completions have begun to trend higher and will grow at a stronger rate in 2009. For this reason, condominium apartment

Figure 2



construction will remain at high levels through the end of next year.

The Condominium Investment Question

When discussing record and near record levels of condominium apartment sales, starts and completions, inevitably the topic of conversation turns to investors. The concern is investors with a short time horizon. These individuals purchase at the pre-construction stage of development with the intention of selling shortly after the completion and registration of the project under a condominium corporation. If many investors were to flood the market with listings all at once, average condominium apartment prices could be forced downward as buyers benefited from increased negotiating power in an over-supplied market.

While it is not known for certain what percentage of units currently under construction are held by investors, discussions with industry stakeholders suggest an investor-held concentration of approximately one-third. As completions have trended upwards after reaching a low point in 2007, an increase in listings has also taken place. This will continue through 2009.

The question is whether or not an increased number of investor-held units reaching the marketplace will cause prices to fall, buyers' equity to erode and ultimately pre-construction purchasers to "walk away" from their deposits. There certainly will be more choice through the end of 2009, but resale market conditions are sufficiently tight, especially in the central GTA, that a buyer's market situation is not expected to develop. Instead, price growth will move closer to the rate of inflation for the GTA as a whole and slightly above inflation in central Toronto. Beyond 2010, the number of investor-held units reaching the market place will likely flatten out and then decline as the number of units sold and under construction trend lower. Moreover, as price growth moves closer to inflation, there will be fewer investors operating at the pre-construction stage of development as the potential return on investment becomes less attractive in the short term.

Existing Home Market

Existing Home Sales Off the Peak

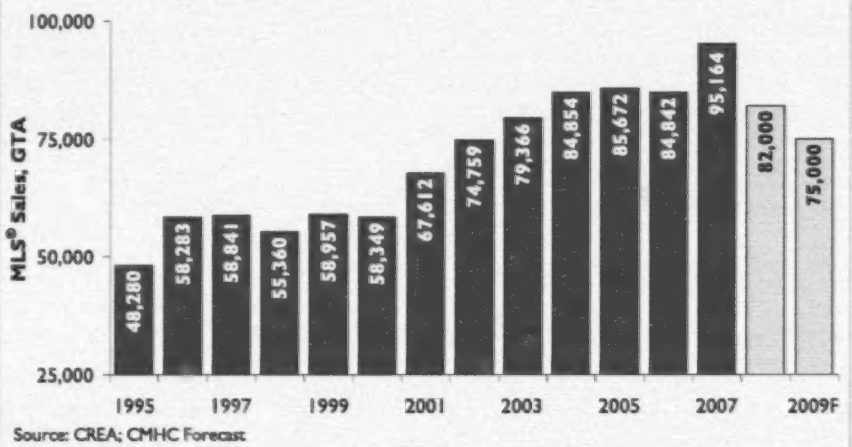
Over the next two years, the number of home sales under the MLS® system in the GTA will trend lower off the 2007 record high. Sales will moderate due to softer economic conditions domestically and elevated home prices. In 2008, home sales will be down to 82,000 units, moderating by 14 percent from a year ago. In 2009, sales will edge lower by 8.5 per cent to 75,000.

Slower growth in jobs and earnings will especially impact would-be first-time buyers, who are generally more sensitive to changes in economic conditions and who face a wider gap between ownership and rental costs.

In addition to the labour market situation, a long phase of home price growth well above the general rate of inflation and household incomes has ultimately moderated demand for homeownership. Slower price growth over the next year will help this situation somewhat, but on net will still result in an increased number of buyers putting their home buying decision on hold.

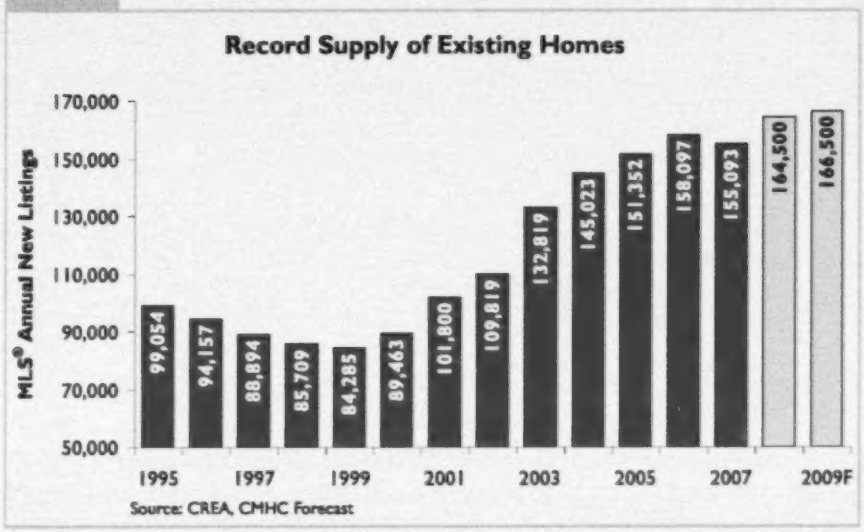
Figure 3

Toronto MLS® Sales Will Remain Above Average



Source: CREA; CMHC Forecast

Figure 4



While home sales will be off record levels, continued steady net-migration and low borrowing rates will keep home buying activity in the GTA in line with the average over the past ten years.

More Supply, Moderate Price Growth

New listings will continue to grow to reach a record-high level in 2008. The trend will flatten out in 2009. At a maturing stage of the housing cycle, when the rate of price increase usually slows, an increasing number of homeowners list their homes for sale to realize the equity gains accumulated during the expansion phase of the price cycle. The trend in listings growth will eventually slow and then change direction, however, as fewer home owners are able to sell their homes for the anticipated values for their properties. This will begin to happen toward the end of 2009.

The relationship between sales and new listings speaks to the level of choice in the existing home market. With sales lower this year and the level of new listings continuing to grow, buyers have had more homes to choose from. This increased choice has meant that offers below the asking price have been more common. As a result, annual price growth in the GTA has moderated. In 2009, the level of new listings is expected to level off and start declining toward the end of the year. While the sales-to-new listings ratio will continue to decline, it will do so at a diminishing rate. The resale market will remain balanced, with prices growing in line with inflation.

The average home price in 2008 will be up 2.6 per cent to $387,000. By the end of 2009, the average price of home will reach $394,000 – up 1.8 per cent. While positive, these forecast growth rates are much more moderate than what was experienced on average over the past ten years, including the seven per cent growth rate experienced in 2007.

Not all housing types will experience the same moderation in price growth over the next year. Condominium apartments in the central Toronto area are a good example of this. The central Toronto area remains a tighter market than the region as a whole. While condo buyers in the central area have experienced more choice this year, seller's market conditions still persist. As choice continues to increase in 2009, price growth will moderate,

Figure 5

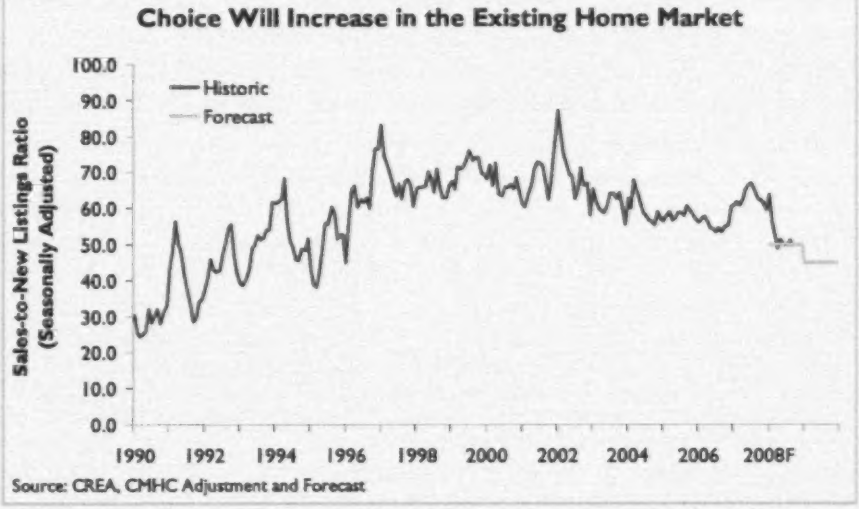


Figure 6

Source: CREA, CMHC Forecast

but will still remain above the average for the GTA as a whole.

The First Time Buyers Niche Gets Smaller

Over the long term, first-time buyers will remain the most important factor driving sustained demand for home ownership in the GTA. As immigration into Canada and the GTA increases over the next two decades, many of these households will be pointed in very short order towards the purchase of a new home. In the short-term, however, the level of first-time buying activity is subject to the economic cycle.

The number of households purchasing their first home will be trending lower in 2009. Softer labour market conditions along with elevated home prices will affect the ability of some first-time buyers to make a home purchase.

Based on CMHC's Renovation and Home Purchase Survey, the percentage of intended home purchases accounted for by first-time buyers declined to 40 per cent for 2008 compared to 47 per cent in 2007. This share will decline further in 2009.

Economic Trends

Toronto Will Continue to Create Jobs

Employers in the GTA have persevered in 2008. The rate of job growth will be 1.8 per cent in 2008 – above the average for Ontario. In 2009, job growth will remain positive, but the rate of growth will moderate to one per cent. Job growth will come from the service sector.

As labour market conditions in the GTA remain tight through the end of 2009, wages and salaries will continue to grow slightly above the rate of inflation. With the unemployment rate hovering around seven per cent, many employers in the service sector will be offering wages above the rate of inflation.

Figure 7

Source: CREA, Statistics Canada, CMHC Forecast

Figure 8

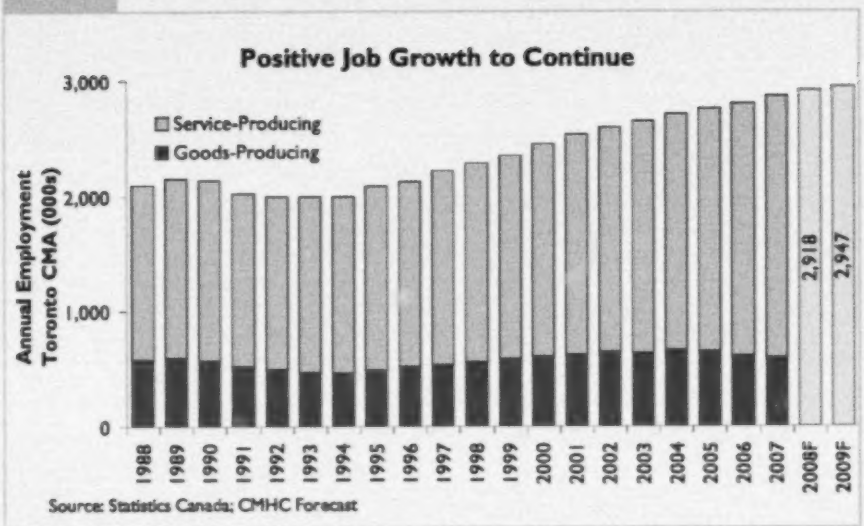
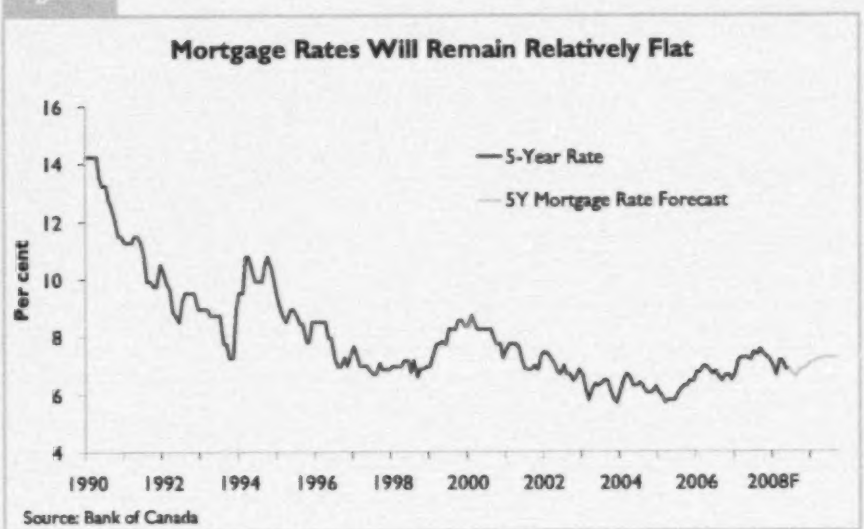


Figure 9



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Forecast SUMMARY Greater Toronto Area Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	85,672	84,842	95,164	82,000	-13.8	75,000	-8.5
MLS® New Listings	151,352	158,097	155,093	164,500	6.1	166,500	1.2
MLS® Average Price ($)	336,176	352,388	377,029	387,000	2.6	394,000	1.8
New Home Market							
Starts:							
Single-Detached	18,435	16,290	16,639	13,200	-20.7	8,500	-35.6
Multiples	27,098	24,321	19,591	30,360	55.0	25,750	-15.2
Semi-Detached	3,435	2,996	2,920	2,110	-27.7	1,530	-27.5
Row/Townhouse	7,171	5,872	5,926	4,700	-20.7	4,020	-14.5
Apartments	16,492	15,453	10,745	23,550	119.2	20,200	-14.2
Starts - Total	45,533	40,611	36,230	43,560	20.2	34,250	-21.4
Average Price ($):							
Single-Detached	418,938	466,230	515,325	534,500	3.7	542,500	1.5
New Housing Price Index (1997=100) (Toronto-Oshawa)	4.5	3.8	2.5		4.0		3.0
Rental Market							
October Vacancy Rate (%)	3.7	3.2	3.2	3.5	0.3	3.0	-0.5
Two-bedroom Average Rent (October) ($)	1,052	1,067	1,061	1,077	-	1,095	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	2,763,400	2,802,100	2,865,500	2,918,000	1.8	2,947,000	1.0
Employment Growth (%)	2.1	1.4	2.3	1.8	-0.5	1.0	-0.8
Unemployment rate (%)	7.0	6.6	6.8	7.0	0.2	7.2	0.2
Net Migration [1]	76,685	53,465	56,000	59,800	6.8	64,000	7.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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